KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM (KPERS) STUDY COMMISSION

FINAL REPORT

Prepared by

Kansas Legislative Research Department

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2011 KANSAS PUBLIC EMPLOYEES RETIREMENT STUDY COMMISSION

Senate

Sen. Jeff King, Co-Chairperson
Sen. Laura Kelly

House

Rep. Mitch Holmes, Co-Chairperson
Rep. Steven Johnson
Rep. Kenneth "Ed" Trimmer

Non-Legislative Members

William Buchanan
Edward Condon
Frederick Proccia
Rebecca Proctor
Michael Ryan
Paul Seyferth
Richard Stumpf
Brian Winter

Non-Voting *Ex Officio* Members

Steve Anderson, Budget Director
Alan Conroy, Director, Legislative Research
Elizabeth Miller, Acting Executive Director, KPERS
Mary Torrence, Revisor of Statutes

Kansas Legislative Research Department

Julian Efird
Michael Steiner

Connie Burns, Secretary

Revisor of Statutes Office

Gordon Self
David Wiese
Daniel Yoza

CHARGE

Study and analyze the current Kansas Public Employees Retirement System (KPERS) retirement system and related systems and develop a viable plan to ensure the long-term sustainability of the system. Study and review the advantages and disadvantages of implementing a defined benefit, defined contribution, or hybrid defined benefit/defined contribution retirement benefit plan or other plan option.

Approved Meeting Days: 11

FINAL REPORT KPERS STUDY COMMISSION DOCUMENT

The Kansas Public Employees Retirement System (KPERS) provides disability, death, and retirement benefits for most public employees at all levels of government, including the state, school districts, and local units. Recurring concerns about the long-term funding of retirement benefits has been an issue since major enhancements were enacted by the 1993 Legislature and the participating employers' annual funding since 1995 was less than the annual actuarial required contribution (ARC). The cumulative shortfall in employer contributions exceeded $2.7 billion and contributed to the December 31, 2010, unfunded actuarial liability of $8.3 billion for all plans covered by KPERS. When investment losses compounded the negative impact on KPERS portfolio assets, the issue began receiving more intense review and generating a series of legislative responses, including the establishment of the KPERS Study Commission to examine the issue and to recommended alternative solutions to the long-term funding problem.

Background

Senate Sub. for HB 2194, passed by the 2011 Legislature, and signed into law by the Governor, and established on July 1, 2011, a 13-member KPERS Study Commission to analyze and review the current KPERS retirement plan, and possibly to develop a viable alternative plan to ensure the long-term sustainability of the system. The authorizing legislation is found in New Section 9, Chapter 98 of the 2011 *Session Laws of Kansas*.

The Commission was directed to study the advantages and disadvantages of implementing alternative retirement plans, including a defined contribution plan, a hybrid plan that could include a defined contribution component, and other plan options. The Commission was required to report before January 6, 2012, on its findings and recommendations. The Commission's final report was to be delivered to the 2012 Legislature and the Joint Committee on Pensions, Investments and Benefits. The authorizing legislation required introduction of the Commission's recommendations as individual 2012 House and Senate bills. The legislation does not specify which entity must introduce the Commission's recommendations, although two identical bills must be started in each chamber of the Legislature. Either the Legislative Coordinating Council (LCC) or the Joint Committee on Pensions, Investments and Benefits has the statutory authority to introduce such bills.

The KPERS Study Commission consisted of 13 voting members and four *ex officio* members who were non-voting. The voting membership of the Commission included five members appointed by the Governor (one of whom must be a practicing Kansas attorney), four members who must be legislators appointed by the House and Senate leadership (one each appointed by the Senate President, Senate Minority Leader, Speaker of the House, and House Minority Leader), and four at-large members appointed by the House and Senate leadership (one each appointed by the Senate President, Senate Minority Leader, Speaker of the House, and House Minority Leader). The *ex officio* members identified in the legislation were the KPERS Executive Director, the Governor's Budget Director, the Revisor of Statutes, and the Kansas Legislative Research Department Director.

From among its voting members, the Commission elected two of the legislators to serve as co-chairpersons. A quorum specified in the legislation was six voting members and all actions had to be taken by a majority of all members of the Commission. Staffing was provided by the Office of the Revisor of Statutes, the Kansas Legislative Research Department, and other central legislative staff service agencies as requested by the Commission. KPERS provided staff and received an appropriation for $60,000 to pay for actuarial services in support of the Commission's study.

Members of the Commission received expenses, mileage, and subsistence for attending meetings. The number of meeting dates was subject to approval by the LCC in order for reimbursement to members attending Commission meetings. The LCC approved a total of 11 meeting days for the Commission. Reimbursements were paid from LCC funds appropriated for 2011 interim meetings and activities.

The KPERS Study Commission originally was authorized to meet ten days by the LCC, including: July 22, August 31, September 22-23, October 25-26, November 7-8, and December 7-8, 2011, in Room 346-S of the Statehouse. The LCC authorized an additional meeting day, if needed, to occur prior to January 6, 2012. Starting with the September meeting, the proceedings were webcast over the internet and a permanent audio-video webcast of the meetings was recorded.

The Commission was directed to accomplish the following three tasks:

- "The Commission shall study and analyze the current KPERS retirement system and systems related thereto, and develop a viable plan to ensure the long-term sustainability of the system."
- "The Commission particularly shall study and review the advantages and disadvantages of implementing a defined benefit, defined contribution or hybrid defined benefit/defined contribution retirement benefit plan, or other plan options."
- "The Commission shall submit a report to the Legislature and the Joint Committee on Pensions, Investment and Benefits before January 6, 2012, with any findings and recommendations which the Commission deems necessary, including the recommendation of any legislation. To carry out the recommendations of the Commission, one bill shall be introduced in the Senate and one bill shall be introduced in the House of Representatives, which such bills shall contain the exact same provisions during the 2012 Legislative Session."

At its meeting of November 15, 2011, the LCC approved one additional meeting day, also indicating that after reporting to the Joint Committee on Pensions, Investments and Benefits, the Commission's recommendations for legislation should be introduced by the Joint Committee for consideration during the 2012 Legislative Session. The Joint Committee planned to meet the first week of the 2012 Session to consider the Commission's report and recommendations, including any proposed legislation.

Kansas Pension Law Guiding Principles

The Office of the Revisor of Statutes prepared a summary of the legal aspects to guide the Commission and to provide a legal framework in which to study the retirement issues.

- The state retirement system creates a contract between the state and its employees who are members of the system. This contract is protected by the Contract Clause of the *U.S. Constitution*.
- Based on Kansas case law, it is uncertain as to when this contract is protected by the Contract Clause of the *U.S. Constitution*, but it is probably sometime after the first day of employment and certainly by the date of vesting.

- If the Legislature makes changes to members benefits that result in disadvantages to the members, it should also give compensating advantages to those members. If the state does not give counterbalancing advantages, it is more likely that this violates the Contract Clause protections granted to employees.

- Contractual pension rights may be modified for the purpose of keeping a pension system flexible to permit adjustments in accord with changing conditions and, at the same time, maintain the integrity of the system. Such modifications must be reasonable, and it is for the courts to determine, upon the facts of each case, what constitutes a permissible change. To be sustained as reasonable, alterations of employees' pension rights must bear some material relation to the theory of a pension system and its successful operation.

- If the state makes changes to the pension system, it is not free to impose a drastic impairment when an evident and more moderate course would serve its purposes equally well.

- When dealing with existing members, the Legislature may be able to make benefit changes as long as they: are prospective in nature; do not affect already accrued benefits by members; and are for purpose of maintaining the integrity of the system, have any disadvantages counterbalanced by compensating advantages, or are small changes where the contractual rights of employees are not significantly altered.

- The Contract Clause does not prohibit small changes in the retirement system if the contractual rights of employees are not significantly altered.

- Since no contractual relationship exists with future employees, the Legislature may set up any sort of retirement system it wishes for future employees.

Members of the KPERS Study Commission

The following individuals were designated as voting members of the Commission prior to its first meeting on July 22, 2011, and the appointing authority for each member is noted. Changes in membership also are noted as to when a change occurred.

Appointed by the Governor

Edward Condon
Christopher Long; replaced by Frederick Poccia on October 25, 2011
Paul Seyferth
Richard Stumpf
Brian Winter

Appointed by the President of the Senate

Senator Jeff King
William Buchanan

Appointed by the Minority Leader of the Senate

Senator Laura Kelly
Rebecca Proctor

Appointed by the Speaker of the House

Representative Mitch Holmes
Representative Steven Johnson

Appointed by the Minority Leader of the House

Representative Kenneth "Ed" Trimmer
Michael Ryan

The following statutory positions were designated as non-voting (*Ex Officio)* members of the Commission.

Elizabeth Miller, Acting Executive Director of KPERS (replaced Glenn Deck on September 20, 2011);
Steve Anderson, Director of the Budget;
Mary Torrence, Revisor of Statutes; and
Alan Conroy, Director of Kansas Legislative Research Department.

KPERS Overview and Impact of Senate Sub. for HB 2194

The KPERS Board of Trustees administers three separate, statewide defined benefit plans for public employees, certain public safety officers, judges, and justices. There are almost 1,500 participating employers, including the state, school districts, cities, counties, townships, and other public employers. KPERS membership includes 279,000 members, with approximately 158,000 active, 44,000 inactive, and 77,000 retired. The three largest groups are part of regular KPERS plan, including approximately 84,000 in the school group, 35,000 in the local group, and 26,000 in the state group. Another 6,000 regular KPERS members work for other types of participating employers not included among the three largest groups. The other two defined benefit plans, the Kansas Police and Firemen's (KP&F) Retirement System, and the Judges Retirement System, include approximately 7,400 members.

In FY 2011, KPERS paid out benefits totaling $1.26 billion, including approximately $1.147 billion for retirement benefits, $54 million for death and disability benefits, $10 million for retiree death benefits, and $50 million for contribution refunds to withdrawing members. During the same fiscal year, employer and employee contributions totaled over $855 million. The KPERS Trust Fund and its investments grew to $13.3 billion on June 30, 2011.

For the calendar year ending December 31, 2010, the funded status of KPERS decreased to a funded ratio of 62 percent, based on the actuarial value of assets. The unfunded actuarial liability increased $587 million to a total of $8.3 billion and that amount represented the shortfall, or difference between funding available and the amount of benefits promised public employees. As a consequence, KPERS and, specifically, one of its groups (the school group) has a long-term funding issue.

The KP&F and Judges plans are being funded at the actuarial required contribution (ARC) and are in actuarial balance; that is, both plans are expected to provide full-funding for the promised benefits by the end of a 40-year period through 2033. The regular KPERS plan was not being funded at ARC, but the state group and local group are in actuarial balance. The KPERS school group was not being funded at ARC, and also is out of actuarial balance, meaning there would not be sufficient resources to pay all promised benefits at the end of the amortization period in 2033.

The KPERS school group had a funded ratio of 55 percent on December 31, 2010, based on the actuarial value of assets. The funded ratio for the state group was 76 percent and for the local group was 63 percent on the same date. The KP&F plan had a funded ratio of 74 percent and the Judges plan had a funded ratio of 83 percent.

The 2011 Legislature addressed the long-term funding issue for KPERS by passing Senate Sub. for HB 2194 creating the KPERS Study Commission. The legislation included other provisions that become effective on July 1, 2012, after the 2012 Legislature takes action on the recommendations of the KPERS Study Commission as prescribed in the legislation. The legislation addressed the regular KPERS plan and the three primary groups of state, school, and local employees. The Commission was not limited in its review of KPERS to consider only these groups.

Both adjustments in employer and employee contributions for the regular KPERS plan are scheduled to be implemented on July 1, 2012. Certain benefit adjustments also are scheduled to be implemented, some of which are contingent upon a favorable ruling by the Internal Revenue Service (IRS) for elections to be held.

First, the annual cap on employer contributions for state, school and local participating employers will increase from 0.6 percent to 0.9 percent in FY 2014, and will continue to increase 0.1 percent each year until it reaches 1.2 percent in FY 2017 and subsequent years.

Second, tier 1 members will have their contributions increase from 4.0 percent to 6.0 percent and will have their multiplier increased for 1.75 to 1.85 percent for future service only. Tier 2 members will continue to have their contributions made at 6.0 percent and their multiplier maintained at 1.75 percent, while losing their automatic cost-of-living adjustment (COLA) for all service. If the IRS allows elections, tier 1 members may opt to keep their contributions at 4.0 percent and have their multiplier decreased from 1.75 to 1.4 percent for future service only. If the IRS allows elections, Tier 2 members may opt to keep their 6.0 percent contribution rate and their COLA, but their multiplier for future service will decrease from 1.75 to 1.4 percent.

Based on the anticipated changes that are effective July 1, 2012, the additional employer and employee contributions, when combined with plan design changes in benefits, will improved the long-term funding outlook and allow the regular KPERS plan for all three groups to reach ARC levels, bringing all groups into actuarial balance prior to 2033. The *Actuarial Valuation Report* of December 31, 2010, detailed the fiscal impact of the 2011 legislation and changes resulting from Senate Sub. for HB 2194, if implemented.

Professional Resources and Testimony for the Commission

The KPERS Study Commission engaged a number of in-state and out-of-state professionals to assist with the study. The expertise and variety of backgrounds the different conferees and staff brought to the study enhanced the comprehensiveness with which the Commissioners were able to review and analyze the problems associated with long-term funding of different retirement plans, including KPERS.

The KPERS Board of Trustees provided staff who gave invaluable assistance to the Commissioners. Glenn Deck, who was the KPERS Executive Director when this study began in July 2011, retired in September 2011, and was replaced by Elizabeth Miller, who previously served as the KPERS Chief Investment Officer, and assumed the role of Acting Executive Director upon Mr. Deck's retirement. Both individuals provided Commissioners with the highest caliber of professional service and support in this study.

The KPERS Board of Trustees also provided two professional actuaries to carry out many of the research tasks for the Commissioners. Currently under contract to the KPERS Board of Trustees is the firm of Cavanaugh Macdonald Consulting, LLC, with Patrice Beckham, Consulting Actuary, and Brent Banister, Senior Actuary, engaged in providing actuarial services for the KPERS Study Commission. Ms. Beckham serves as the designated KPERS Actuary for the Board of Trustees. The 2011 Legislature added a special appropriation of $60,000 to help pay a portion of the added expenses associated with the actuarial work for the Commissioners during 2011.

Two different branches of government, the executive and the legislative, had three staff members who served as *ex officio* Commissioners and were able to provide additional professional support to the study based on their backgrounds and state-level responsibilities. Steven Anderson, Director of the Division of Budget for Governor Sam Brownback; Mary Torrence, the Revisor of Statutes for the Kansas Legislature; and Alan Conroy, Director of Kansas Legislative Research Department for the Kansas Legislature; all responded to many requests from the Commissioners for assistance and offered insights from their unique perspectives as state policy-advisors.

The KPERS Study Commission also called upon a number of out-of-state representatives of national organizations which address retirement issues. Among the national representatives who provided support to the work of the Commissioners were Ron Snell, National Conference of State Legislatures; David Draine, Pew Center on the States; Keith Brainard, National Association of State Retirement Administrators; and Joe Nichols, a consulting actuary at McCloud and Nichols, Inc., who is a member of the American Academy of Actuaries and of the American Society of Pension Professionals and Actuaries.

The Commissioners interacted with a number of out-of-state officials in reviewing the different types of retirement plans and modifications implemented in other state plans. Utah State Senator Daniel Liljenquist; Phyllis Chambers, Nebraska Public Employees Retirement Systems; and Meredith Williams, Colorado Public Employees Retirement Association; described changes to their states' retirement plans. Commissioners expressed an interest in hearing details about these specific state plans and changes adopted by them. Later, both Oregon and Washington also were addressed. Paul Cleary, Oregon Retirement System, provided background information and answered questions about the Oregon hybrid retirement plan. Marcie Frost, Washington State Department of Retirement Systems, presented an overview of the Washington State hybrid retirement plan. In reviewing pension obligation bonds, the Commissioners heard from Frank Hoadley, the Wisconsin Capital Finance Director, who presided over issuance of $1.5 billion in such bonds for their state retirement system.

The Commissioners also received information from representatives of the Kansas Development Finance Authority about issuing pension obligation bonds. Rebecca Floyd, Executive Vice President and General Counsel, along with Jim MacMurray, Finance Vice President, reviewed a potential $5.0 billion bond issue for KPERS as an example for the Commission to consider.

Representatives of the investment community presented information about the administration and management of individual retirement accounts for defined contribution plans and hybrid plans. Various services were described that certain companies could provide at competitive pricing. Roderick Crane, TIAA-CREF; Bernie Heffernon, ING Group; Doug Wolff, Security Benefit Corporation; and Stuart Sedlacek, an independent investment consultant; all provided information to Commissioners about the industry.

Public Testimony on KPERS

The Commission set aside time over a two-day period for members of the public to comment about KPERS and the issues perceived by those who requested time to address the Commission. Conferees presenting public testimony and information to the Commissioners represented a variety of perspectives when the public hearing was conducted. They included current members of the KPERS retirement plan, retired members, lobbyists for public employee groups having membership in the KPERS plan, a legal policy researcher recommending changes in the current KPERS plan, and an academician offering insights and basic facts about the different types of retirement plans. The conferees who provided public testimony on the KPERS plan included John L. Utz, Kansas Policy Institute; Ernie Claudel, Kansas Coalition of Public Retirees; Brian Thompson, Public Employees Association of Kansas, Inc.; Bob Coldsnow and Chris Huntsman, KPERS retirees; Levi Henry, active member representing Keeping the Kansas Promise, Inc.; Gary Adkins, State Employees Association of Kansas; Ed Klumpp, Kansas Association of Chiefs of Police, Kansas Sheriffs Association, and Kansas Peace Officers Association; and Randy Gardner, University of Missouri–Kansas City.

Public Meetings

All meetings of the Commission were conducted in Room 346-S of the Statehouse, Topeka, Kansas. The meetings were held on July 22, August 31, September 22-23, October 25-26, November 7-8, and December 7-8, 2011. After the first two organizational meetings in July and August, all subsequent sessions were shown by webcast. The minutes and attachments from all meetings were made available on the internet website of the Kansas Legislative Research Department. The final approved minutes and attachments will be filed and available in the Office of Legislative Administrative Services for public inspection and review.

Commission Deliberations

The Commission narrowed its scope of study and focused on certain topics in the last two scheduled meetings, November and December. Among the items related to the current KPERS plan, the Commission decided to continue reviewing specific issues noted below, as well as to recommend further study by the Legislature of other items, rather than continue its study of those issues. The Commission also engaged in reviewing alternative new retirement plan designs, assisted by the KPERS actuaries.

First, the Commission focused on studying and developing two new plan designs: a Stacked Hybrid (SH) plan and a pure Defined Contribution (DC) plan. The Commission also studied, in context of developing the two new plan designs, certain related issues Commissioners deemed important considerations. Those issues included: closing the current KPERS plan for Tiers 1 and 2, and opening an undefined new Tier 3; freezing the current KPERS plan benefits, and replacing with it with an undefined new retirement plan; hard-wiring future KPERS state funding; adjusting the KPERS 1.75 percent multiplier to a lower figure; and repealing 2011 Senate Sub. For HB 2194.

Second, the Commission identified other issues to consider separately from new plan designs involving the present KPERS plan and possible adjustments in certain statutory provisions Commissioners viewed as problems in the present plan design and its implementation. Those issues included the following: eliminating KPERS service credit purchases; refunding account balances for non-vested KPERS members earlier than five years; eliminating sick and annual leave from pre-1993 KPERS members' calculations for final average salary (FAS); extending KPERS vesting from five to ten years; addressing the calculation of legislators' KPERS retirement benefits; reviewing pension obligation bonds and bonding to reduce the KPERS unfunded liability; and removing the statutory cap on the increases in annual KPERS participating employer contributions.

Third, there were additional issues the Commission identified and recommended for further review by the Legislature, but for which the Commission decided not to give further consideration during its last meetings. The Commission adopted recommendations for further legislative study to include five items for inclusion in its final report: removing the 32 year cap on service credit that can be earned by Kansas Police and Firemen (KP&F) Retirement System members; eliminating double-dipping; controlling or eliminating early retirement incentives; standardizing all state retirement plans, including the Regents plan, and making tax treatment consistent for different state retirement plans; and preventing spiking in the calculation of FAS when determining retirement benefits.

Conclusions and Recommendations

The KPERS Study Commission concluded its 2011 meetings on December 7-8 by adopting a number of recommendations and proposed legislation for introduction to the 2012 Legislature. Recommendations adopted at earlier meetings also are reflected in this summary as noted below. The Commission's suggested changes will not be final until the first week of January 2012 after the final report is submitted on January 6, 2012. These recommendations are:

- First, the Commission voted to introduce legislation that would create a new retirement plan for certain state, school, and local government employees on July 1, 2013, with implementation set for January 1, 2014. Coordination with the current death and long-term disability benefits plan with the new KPERS plan would be incorporated in this legislation. The new retirement plan design is a two-part plan that includes a service-based annuity and employee directed contribution plan. The legislation also would close the current KPERS plan for Tier 1 and Tier 2 members (in the state, school and local groups), but those members who are vested before July 1, 2013, would continue to be covered by the provisions of the current KPERS plan. Vesting for Tier 1 and Tier 2 KPERS members requires five years of service credit. All non-vested KPERS members, and all new employees, beginning January 1, 2014, would become members of the new retirement plan.

  Non-vested members would have their employee KPERS contributions, plus accrued interest, transferred to the new KPERS plan. Members would have a one-time election to allocate how much of the money transferred will be deposited into each account option for the employee defined contribution and employer annuity contribution parts of the new KPERS plan.

  The only exception for vested KPERS members would apply to legislators, all of whom would be transferred to the new KPERS plan. Any legislators who are KPERS members would become members of the new KPERS plan on January 1, 2014, whether they are vested or non-vested members. Any legislator's benefits accrued under the current KPERS plan would transfer to the new KPERS plan;

- Second, the Commission adopted two other recommendations to be introduced in legislation during the 2012 Session. The Commission recommended legislation to eliminate service credit purchases on or after July 1, 2013, by members of Tier 1 and Tier 2 in the current KPERS plan, and to repeal the annual statutory cap on participating employers' contributions for the current KPERS plan that will allow payments to increase to the actuarial required contribution (ARC) rate. Under provisions of Senate Sub. for 2011 HB 2194, the current 0.6 percent cap on annual employer contributions was scheduled on July 1, 2012, to begin increasing in stages to a 1.2 percent cap by FY 2016;

- Third, the Commission adopted a recommendation for the 2012 Legislature to consider bonding a portion of the KPERS unfunded actuarial liability (UAL), or alternatively, bonding all of the KPERS UAL, for the current KPERS plan including the state, school, and local groups. The December 31, 2010, actuarial valuation report estimated the KPERS UAL to be $0.9 billion for the state group, $5.3 billion for the school group, and $1.4 billion for the local group. The cumulative KPERS plan unfunded actuarial liability for the state, school, and local groups was $7.6 billion, or $0.7 billion less than the December 31, 2010, total estimate of $8.3 billion. The total UAL included the three KPERS groups plus two other plans (including the judicial, police and fire groups); and

- Finally, the Commission adopted five recommendations for further legislative study. The recommendations included five topics: removing the 32-year cap on the maximum number of years of service credit that can be earned by Kansas Police and Firemen (KP&F) Retirement System members; eliminating double-dipping; controlling or eliminating early retirement incentives; standardizing all state retirement plans, including the Regents plan and making tax treatment consistent for different state retirement plans; and preventing spiking in the calculation of final average salary (FAS) when determining retirement benefits.

New Plan Design

The new KPERS plan is a two-part retirement plan design with an annuity contribution component paid by the employer and an employee-directed contribution component. There would be mandatory contribution rates for both the employee and employer. The employee contribution rate would be fixed at 6.0 percent of compensation, with all employee payments going to the defined contribution account of the plan. The employer contribution would be service-based and would increase annually on a graduated scale from 1.0 percent initially to a maximum 5.0 percent of compensation after eight years of service. There would be an annual increase of 0.5 percent in the employer contribution rate for each year of service completed. All of the employer contributions would be deposited in the annuity contribution account.

The annuity contribution component of the new KPERS plan would make investments that would mirror the investments held by the KPERS fund, with no employee direction as to investment choices for the employer contributions. The employee-directed contribution component is a type of defined contribution account which would be self-directed by the employee, with numerous qualifying investment options, including one option to closely mirror the KPERS total portfolio. The latter option would be used if the employee does not self-direct investments.

Earnings would be based upon investment performance for both components of the plan. No amount of earnings would be guaranteed for either account in the new KPERS plan, though no overall investment losses would accrue to the annuity contribution account as part of the plan design document.

Benefit distributions would be subject to federal retirement guidelines for each part of the new plan, including the annuity contribution component and the employee's defined contribution component. For the defined contribution component, distributions would occur through a lump-sum payment or other legally permitted schedules of payments. The annuity contribution component would provide distributions through a lifetime annuity payment, based upon the Pension Benefits Guarantee Corporation's annuity rate, the account's cash balance upon retirement, the retiree's age, and other factors as prescribed in the plan design document and permitted by federal law.

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